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New Accounting Issues Derail a Filing

Stock options and revenue recognition are at issue for Symbol Technologies. Also: SEC questions governance of NYSE; NBC wins Vivendi auction; prospects good for technology spending; and more.

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More trouble for Symbol Technologies Inc.

The bar-code giant, which is already restating five years of financials and is being investigated by at least two government agencies, Friday said it will delay releasing its 2002 annual report due to "two significant accounting issues."

Symbol had planned to file its annual report by the end of August, but the company now maintains that it is impossible to commit to a timetable.

The first new significant issue is related to the exercising of stock option; the second is related to the revenue recognition for two types of transactions occurring during the restatement period.

"Due to the unique nature of the stock option exercise issue, we are working together with the company's external auditors, as well as the staff of the SEC, to determine the appropriate accounting treatment for the company's stock option plans," said chief financial officer Mark Greenquist in a statement. "In addition, we are working with our external auditors to resolve the revenue recognition timing matters."

The company said that during its internal investigation — conducted by external legal and accounting firms — it discovered that a number of officers and directors broke company rules during the exercise of stock options in 2002 and prior periods.

Symbol explained that sometime during the early 1990s, the individuals used a "look-back" period to determine the market price to be used in connection with the exercise of their stock options. The look-back period generally extended back to the first day of the month in which the options were exercised, but usually no more than 30 days, permitting the retroactive designation of the exercise date and the associated market price.

In a sense, the individuals were able to name their own price for the options exercise.

In addition, the company said that it found instances in which option holders did not remit timely payment or shares when exercising stock options in order to hold the stock. Symbol added that this, too, was not in conformance with the provisions of the incentive stock option plans.

These undocumented practices ceased in July 2002 with the passage of the Sarbanes-Oxley Act of 2002, noted Symbol, which added that it has taken steps, including personnel changes, to ensure that they do not recur.

As a result of these practices, stated Symbol, in the company's restated financial statements a portion (and perhaps all) of the grants of stock options under the company's various plans will be accounted for using variable accounting.

Stock options subject to variable accounting are marked to market at the end of each accounting period, with the resulting change in value of outstanding stock options shown as compensation expense in the company's

income statement, the company noted. While variable accounting would likely result in large period-to-period fluctuations in reported net income, the impact to the company's net worth would be minimal, it added, since changes in retained earnings would be negated by offsetting changes to other equity accounts. The company also said that variable accounting would have no effect on its cash or debt balances.